

Message Text

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PAGE 01 JIDDA 08335 281321Z
ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
-----281323Z 009868 /44

Z574K
PP RUEHC
DE RUEHCR #8335 3631310
ZNY SSSSS ZZH
P 281115Z DEC 76
FM AMEMBASSY JIDDA
TO SECSTATE WASHDC PRIORITY 6718

S E C R E T JIDDA 8335

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FOR SECRETARY AND SECRETARY-DESIGNATE FROM AMBASSADOR

E.O. 11652: XGDS-2
TAGS: ETRD, ENRG, PFOR, OPEC, SA, US
SUBJECT: SAUDI POST-DOHA DEVELOPMENTS

BELIEVE FOLLOWING FROM RELIABLE SOURCE MERITS YOUR ATTENTION:

1. SAUDI CONCERN OVER THE EFFECTS OF PRESENT AND POSSIBLE FUTURE
US ANTI-BOYCOTT LEGISLATION HAS TAKEN ON TWO NEW DIMENSIONS SINCE
THE DOHA OPEC MEETINGS AND SAUDI ARABIA'S ACTION TO CREATE A
TWO-TIER OIL PRICING SYSTEM:

A. CROWN PRINCE FAHD HAS EXPRESSED GRAVE CONCERN THAT
PASSAGE OF NEW ANTI-BOYCOTT LEGISLATION, IF DEBATED AND APPROVED
DURING THE CRITICAL PERIOD WHEN SAUDI ARABIA IS WORKING TO
UNDERMINE THE PRICE STRUCTURE DECREED BY ITS ELEVEN OPEC RIVALS,
WILL SERIOUSLY EMBARRASS SAG IN GENERAL AND CROWN PRINCE FADH
IN PARTICULAR. HE IS UNDER CRITICISM NOT ONLY FROM OTHER OPEC
GOVERNMENTS AND OTHER ARABS, BUT FROM A SIGNIFICANT ELEMENT
OF THE SAUDI ESTABLISHMENT. WE HAVE BEEN RELIABLY INFORMED, FOR
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EXAMPLE, THAT MINISTERS MOHAMMAD ABA AL-KHAYL (FINANCE), GHAZI
AL-QUSAYBI (INDUSTRIES) AND HISHAM NAZIR (PLANNING) ARE STRONGLY
OPPOSED TO FAHD'S DECISION TO USE INCREASED OIL PRODUCTION AS A
WEAPON IN SUPPORT OF WHAT THEY SEE AS PRIMARILY A POLITICAL
OBJECTIVE--WINNING THE CONFIDENCE AND APPROVAL OF THE CARTER
ADMINISTRATION.

B. ON THE PRACTICAL LEVEL, EXISTING ANTI-BOYCOTT LEGISLATION IS VIEWED AS A SIGNIFICANT OBSTACLE TO THE RAPID EXPANSION OF SAUDI ARABIA'S OIL PRODUCTION CAPABILITY. THE IMPORTATION OF LARGE AMOUNTS OF NEW EQUIPMENT WILL BE REQUIRED IN THE NEXT YEAR (AND PARTICULARLY IN THE CRITICAL NEXT 3-6 MONTHS) TO ENABLE ARAMCO TO ACCOMPLISH ITS ASSIGNED OBJECTIVE OF GOING "ALL-OUT" TO UNDERMINE THE OPEC PRICE. THE BOARDS OF DIRECTORS OF THE ARAMCO PARENTS, HOWEVER, ARE INSISTENT UPON ARAMCO'S RIGID APPLICATION OF ALL ELEMENTS OF THE RIBICOFF AMENDMENT, LEST THEY IMPERIL THEIR FOREIGN TAX CREDITS. THIS MEANS THAT:

(1) ARAMCO CANNOT RELY EXCLUSIVELY ON ITS ESTABLISHED SUPPLIERS IN ACCOMPLISHING ITS URGENT EXPANSION. EVERYTHING MUST BE PUT OUT TO TENDER ON A BROAD SCALE, LEST THEY BE ACCUSED OF DISCRIMINATION AGAINST ANY POTENTIAL SUPPLIER FOR BOYCOTT-ASSOCIATED REASONS.

(2) BIDS MAY THEREFORE BE WON BY BOYCOTTED FIRMS, MEANING CERTAIN DELAYS AND PROBABLE LEGAL IMBROGLIOS. (IN AN EFFORT TO FORESTALL SUCH PROBLEMS, ARAMCO WILL INCLUDE IN ALL TENDER AGREEMENTS A NEW CLAUSE STATING THAT ANY SUPPLIERS UNABLE FOR ANY REASON TO DELIVER GOODS TO ARAMCO C.M.I.F. DAMMAM WILL BE RESPONSIBLE FOR REPATRIATION OF THE GOODS AT THEIR OWN EXPENSE AND RISK. THIS MAY DISCOURAGE LEGITIMATE BIDDERS WHO KNOW THEY ARE BOYCOTTED, BUT WILL NOT IMPEDE MISCHIEF-MAKERS, A PROSPECT WHICH IS CAUSING THE SAG SOME ANXIETY.)

2. PRINCE FADH HAS INSTRUCTED COMMERCE MINISTER, SULAYMAN AL-SECRET

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SULAYM, TO CONTACT THE HEADS OF CERTAIN OF THE LARGEST U.S. CORPORATIONS OPERATING IN SAUDI ARABIA, AND TO ENCOURAGE THEM TO PASS ON TO THEIR BOARDS OF DIRECTORS AN URGENT APPEAL FOR ACTIVE COOPERATION IN OPPOSING FURTHER ANTI-BOYCOTT LEGISLATION BY THE NEW US CONGRESS. IN MOST CASES, THE COMMERCE MINISTER HAS SUGGESTED THAT THE US COMPANIES STRESS TO THEIR MANAGERMENTS THE LIMITATIONS ON BUSINESS OPPORTUNITY IN SAUDI ARABIA THAT COULD RESULT IF MORE STRINGENT LEGISLATION IS PASSED. IN THE CASE OF ARAMCO, SULYAM WAS UNDER INSTRUCTION TO EMPHASIZE THE TWO MORE SPECIFIC AND POLITICALLY SENSITIVE POINTS MENTIONED ABOVE, NAMELY THE CONCERN OF CROWN PRINCE FAHD THAT HE NOT BE PERSONALLY EMBARRASSED BY THE PASSAGE OF LEGISLATION CLEARLY DETRIMENTAL TO SAUDI-US RELATIONS, AND THE SAG'S ANXIETY THAT EXISTING AND PROSPECTIVE ANTI-BOYCOTT LEGISLATION NOT IMPEDE THE PRODUCTION EXPANSION PROGRAM ON WHICH DEPENDS MUCH OF SAUDI ARABIA'S CAPACITY TO IMPOSE ITS WILL ON THE REST OF OPEC. COMMERCE MINISTER SULAYM SPECIFICALLY ASKED THAT ARAMCO MEET URGENTLY WITH ITS PARENT MANAGERMENTS TO CONSIDER WAYS IN

WHICH THESE CORPORATIONS MIGHT MOBILIZE THEIR POLITICAL RESOURCES
TO ACIEIVE A POSTPONEMENT OF FURTHER ANTI-BOYCOTT LEGISLATION
AT LEAST UNTIL TWO THINGS OCCUR.

A. SOME MOMENTUM IS ACHEIVED IN A MIDDLE EAST PEACE
INITIATIVE--WHICH WILL TAKE THE HEAT OFF SAUDI ARABIA.

B. SAUDI OIL PRODUCTION CAN BE BUILT UP TO THE POINT WHERE
ITS REAL LEVERAGE AMONG OPEC PRODUCERS MATCHES THE POLITICAL
OBJECTIVES AND REQUIREMENTS IMPOSED ON SAUDI ARABIA AS A
CONSEQUENCE OF ITS RESOLUTE STAND AT DOHA.

3. NO RESPONSE TO FOREGOING IS EXPECTED. I HAVE, HOWEVER,
ACCESS TO SOURCE IF NECESSARY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, PRICES, BOYCOTTS, BUSINESS FIRMS, GOVERNMENT REACTIONS, CAT-B
Control Number: n/a
Copy: SINGLE
Draft Date: 28 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JIDDA08335
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X2
Errors: N/A
Film Number: P840093-1923
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761210/aaaaaiov.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUN 2004 by ElyME>; APPROVED <20 OCT 2004 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAUDI POST-DOHA DEVELOPMENTS
TAGS: ETRD, ENRG, PFOR, SA, US, OPEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006